

Secured Obligations. As such, the Holders of the Income Notes will rank behind all of the creditors, whether secured or unsecured and known or unknown, of the Issuer, including, without limitation, the Holders of the Secured Notes, the Class A1 Swap Counterparty, the Initial CDS Asset Counterparty, the Cashflow Swap Counterparty, the Hedge Counterparties, the Manager and any judgment creditors. Except with respect to the obligations of the Issuer to make payments pursuant to the Priority of Payments, the Issuer does not expect to have any creditors.

6. Undercollateralization of the Income Notes. A significant amount of the initial proceeds of the sale of the Notes will be applied to pay expenses incurred by the Issuer in connection with the offering of the Notes rather than to make investments in Eligible Collateral Debt Securities. As a result, the Income Notes will be undercollateralized when they are issued. In addition, during the lifetime of the transaction, except as described herein, excess Interest Collections will be paid to the Holders of the Income Notes, rather than being invested in additional Collateral Obligations. Therefore, the Income Notes will in all likelihood remain undercollateralized and it is highly likely that after payments of the Secured Notes and the other amounts payable prior to the Income Notes, Principal Collections will be insufficient to return the initial investment made in the Income Notes. Therefore, over the passage of time, Holders of Income Notes will have to rely on excess Interest Collections for their ultimate return.

There can be no assurance that the distributions on the Collateral and other payments received by the Issuer, for example, pursuant to the CDS Assets, the Hedge Agreements, the Cashflow Swap Agreement, the CDS Collateral Agreement, the Eligible Investments, other amounts in the Accounts and proceeds thereof will be sufficient to make payments on the Income Notes after making payments which rank senior to payments on the Income Notes. The Issuer's ability to make payments in respect of the Income Notes will be limited by the terms of the Secured Notes. If distributions on the Collateral are insufficient to make payments on the Income Notes, no other assets will be available for payment of the deficiency. See "Description of the Notes".

7. Limited Liquidity and Restrictions on Transfer of the Notes. There is currently no market for any Notes and, as a result, a purchaser must be prepared to hold the Notes for an indefinite period of time or until the maturity or early redemption thereof. The Notes will be owned by a relatively small number of investors, and no assurance can be given that any secondary market for the Notes will develop, and it may be difficult for Holders of the Notes to determine the value of the Notes at any particular time. Purchasers of the Notes may find it difficult or uneconomic to liquidate their investment at any particular time.

The Notes have not been and will not be registered under the Securities Act, under any United States state securities or "Blue Sky" laws or under the securities laws of any other jurisdiction and are being issued and sold in reliance upon exemptions from registration provided by such laws. No Notes may be sold or transferred unless (i) such sale or transfer is exempt from the registration requirements of the Securities Act (for example, in reliance on exemptions provided by Rule 144A, Regulation S or Section 4(2) of the Securities Act (or another available exemption from the registration requirements of the Securities Act)) and applicable state securities laws and (ii) such sale or transfer does not cause either of the Co-Issuers to become subject to the registration requirements of the Investment Company Act. See "Purchase and Transfer Restrictions". In addition, transfers of any interest in the Income Notes must meet the restrictions described under "Certain ERISA Considerations". Prospective transferees of the Certificated Notes will be required pursuant to the terms of the Indenture and the Income Note Paying Agency Agreement, as applicable, to deliver an investor certificate to the Trustee or the Income Note Paying Agent, as applicable, and the Issuer relating to compliance with the Securities Act, applicable state securities laws, ERISA and the Investment Company Act.

8. Average Lives, Redemption and Prepayment Considerations; Distributions on the Income Notes. The average life of each Class of Secured Notes and the date of redemption of the Income Notes are expected to be shorter than their respective Maturity Date—Stated. See "Certain Maturity and Prepayment Considerations".

The average life of each Class of Secured Notes and the date of redemption of the Income Notes will be affected by the financial condition of the obligors on or issuers of the Eligible Collateral Debt Securities and the characteristics of the Eligible Collateral Debt Securities, including, among other factors, the existence and frequency of exercise of any prepayment, optional redemption or sinking fund features, the redemption price, the actual default rate and the actual level of recoveries on any Defaulted Securities, the frequency of tender or exchange offers for the Eligible Collateral Debt Securities and any sales of and reinvestment in Eligible Collateral Debt Securities.

Generally, a higher level of prepayments would be expected in a decreasing rate environment. On the Mandatory Redemption Date—Initial, the Trustee will liquidate the Collateral only if the proceeds of such liquidation are sufficient to pay outstanding expenses of the Co-Issuers, hedging costs and to redeem any Outstanding Secured Notes and to pay the Required Amount to the Holders of the Income Notes and any excess thereafter will be paid to the Holders of the Income Notes. The timing of the liquidation and the proceeds thereof will affect the returns on the Income Notes. See "Certain Maturity and Prepayment Considerations" and "Security for the Secured Obligations".

9. **Forward-Looking Statements, Forecasts and Estimates.** Estimates of the weighted average lives of the Notes and the date of redemption of the Income Notes, together with any forecasts and estimates provided to prospective purchasers of the Notes, are forward-looking statements and are based upon certain assumptions. Forward-looking statements are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the forward-looking statements will not materialize or will vary significantly from actual results. Accordingly, the forward-looking statements are only an estimate. Actual results may vary from the forward-looking statements, and the variations may be material.

Some important factors that could cause actual results to differ materially from those in any forward-looking statements include changes in interest rates, market, financial or legal uncertainties, the timing of acquisitions and sales of the Eligible Collateral Debt Securities, differences in the actual allocation of the Eligible Collateral Debt Securities among asset categories from those assumed, mismatches between the timing of accrual and receipt of Interest Collections and Principal Collections from the Eligible Collateral Debt Securities, available funds caps, floors or other caps on the interest rate payable on the Eligible Collateral Debt Securities, timing mismatches on the reset of the interest rates between the Eligible Collateral Debt Securities and the Secured Notes, the timing and frequency of defaults under the Eligible Collateral Debt Securities, the effectiveness of the Hedge Agreements, the Cashflow Swap Agreement, the CDS Assets, the CDS Collateral Agreement and the Class A1 Swap and differences in the actual prepayment rates with respect to the Eligible Collateral Debt Securities from those assumed, among others.

Without limiting the generality of the foregoing, the inclusion of forward-looking statements herein should not be regarded as a representation by the Issuer, the Co-Issuer, the Manager, the Initial Purchaser, the Placement Agent, the Trustee or any of their respective affiliates or any other Person of the results that will actually be achieved by the Co-Issuers or any Class of Notes. None of the foregoing Persons has any obligation to update or otherwise revise any forward-looking statements, including any revisions to reflect changes in economic conditions or other circumstances arising after the date hereof or to reflect the occurrence of unanticipated events, even if the underlying assumptions do not come to fruition.

Each prospective investor in the Notes should evaluate all relevant assumptions, models and inputs, should determine whether they are appropriate and should consider whether the Notes should be evaluated based on different assumptions, models and inputs.

10. **Redemption; Potential Illiquidity and Volatility of Collateral Market Value.** If the Secured Notes have not been redeemed or repaid in full on or prior to such date, the Issuer will attempt a Redemption in accordance with certain procedures specified in the Indenture. (i) on any Payment Date occurring on or after the Optional Redemption Date—Initial, if the Issuer is so directed in writing by the Holders of not less than 66 2/3% of the Principal Balance—Aggregate of the Outstanding Income Notes, (ii) on any Payment Date, if a Tax Event has occurred and is continuing and the Issuer is so directed in writing by a Majority of the Outstanding Income Notes or (iii) on the Mandatory Redemption Date—Initial or any subsequent Payment Date, if the Secured Notes have not been redeemed or repaid in full on or prior to such date; *provided*, that certain conditions are satisfied. See "Description of the Notes—Redemption".

A Redemption will result in a liquidation and sale of the Eligible Collateral Debt Securities into the then-existing markets. The market value of the Eligible Collateral Debt Securities will generally fluctuate with, among other things, changes in prevailing interest rates, general economic conditions, the condition of certain financial markets, United States and international political events, developments or trends in any particular industry and the financial condition of the issuers of the Eligible Collateral Debt Securities. A decrease in the market value of the Eligible Collateral Debt Securities would adversely affect the Sale Proceeds which could be obtained upon the

sale of Eligible Collateral Debt Securities and be available for distributions on the Income Notes following any sale or other disposition of the Collateral. Therefore, there can be no assurance that, upon any such redemption, the Sale Proceeds realized would permit payment on the Income Notes after required payments are made to the Holders of the Secured Notes.

11. Mandatory Principal Prepayment of Notes. If any of the Coverage Tests with respect to any Class or Classes of Secured Notes is not satisfied on the Period End Date related to a Payment Date (beginning with the second Payment, in the case of the Interest Coverage Tests), Interest Collections that otherwise would potentially have been paid or distributed to the Holders of each Class (other than the Class A Notes) that is a Junior Class with respect to such Class and Principal Collections will be applied (i) to pay the Class A1 Note Amount, (ii) as a deposit to the Capacity Subaccount of the Reserve Account, such deposit permanently reducing the Class A1 Swap Notional Amount until it is reduced to zero, and (iii) to repay principal of the other Classes of Secured Notes in order of seniority from the most Senior Class to the most Junior Class outstanding to the extent necessary to cause the applicable Coverage Test to be satisfied as described under "Summary of Terms—Priority of Payments". This could result in an elimination, deferral or reduction in the amounts available to make interest payments or principal repayments to the Holders of the Secured Notes (other than the Class A Notes) and to make distributions to Holders of the Income Notes.

12. Effect of Ratings Confirmation Failure. The Manager's ability to acquire assets during the Ramp-Up Period will depend on a number of factors beyond the Manager's control, including the condition of certain financial markets, general economic conditions and United States and international political events, and thus there can be no assurance that such targets will be met. Not more than five days after the Ramp-Up End Date, the Issuer (or the Manager on behalf of the Issuer) will request the Rating Agencies to confirm, in writing and within 20 Business Days after the Ramp-Up End Date, and so notify the Trustee, that they have not reduced or withdrawn their Initial Ratings.

If any such rating is not confirmed, or is reduced or withdrawn, by either Rating Agency in connection with such requested confirmation on or before the first Payment Date, the Issuer will be required to pay principal of any Outstanding Secured Notes, in order of seniority from the most Senior Class to the most Junior Class in accordance with the Priority of Payments, in each case, to the extent necessary to cause each Rating Agency to confirm or reinstate its respective Initial Ratings, which could result in an elimination, deferral or reduction in the amounts available to make distributions to Holders of the Income Notes.

13. Closing Date and Ramp-Up End Date Tests. The Issuer is required to satisfy the Portfolio Quality Tests and the Portfolio Limitations only as of the Closing Date and the Ramp-Up End Date. The portfolio of Eligible Collateral Debt Securities and Eligible Investments shall satisfy the Principal Coverage Tests as of the Closing Date and the Ramp-Up End Date. The Coverage Tests will also be required to be satisfied as of the Period End Date related to any Payment Date (beginning with the second Payment Date, in the case of the Interest Coverage Tests). Failure to satisfy the Portfolio Quality Tests or the Portfolio Limitations after the Ramp-Up End Date will not be an Event of Default and will not affect the Issuer's payment obligations. When investing in Eligible Collateral Debt Securities after the Closing Date and the Ramp-Up End Date, as applicable, in the limited circumstances expressly provided herein, the Portfolio Limitations, the Portfolio Quality Tests and the Coverage Tests will be required to be satisfied, or, if not satisfied immediately prior to such proposed investments, the degree of compliance with such unsatisfied criteria will be required to be maintained or improved after giving effect to such investment.

14. Nature of the Eligible Collateral Debt Securities and Inherent Risks. The Eligible Collateral Debt Securities will consist primarily of CDO Securities or CDS Assets referencing CDO Securities. CDO Securities are generally limited recourse obligations of the issuer thereof payable solely from the underlying CDO Assets of such issuer or proceeds thereof. Consequently, holders of CDO Securities must rely solely on distributions on the CDO Assets or proceeds thereof for payment in respect thereof. In addition, interest payments on CDO Securities (other than the most senior tranche or tranches of a given issue) are generally subject to deferral. If distributions on the CDO Assets (or, in the case of a Market Value CDO Security, proceeds from the sale of the CDO Assets) are insufficient to make payments on the CDO Securities, no other assets will be available for payment of the deficiency and following realization of the underlying assets, the obligations of the issuer of the related CDO Security to pay such deficiency will be extinguished. CDO Securities (particularly subordinated CDO Securities) may provide that

to the extent funds are not available to pay interest, such interest will be deferred or paid "in-kind" and added to the outstanding principal balance of the related security. Generally, the failure by the issuer of a CDO Security to pay interest in cash does not constitute an event of default as long as a more senior class of securities of such issuer is outstanding and the holders of such securities (including the Issuer) will not have available to them any associated default remedies. See "—CDO Assets May Defeer Interest".

The CDO Assets will themselves consist primarily of bonds (including investment grade bonds and high yield bonds), asset-backed securities (including residential mortgage-backed securities and home equity loan securities), commercial and corporate bank loans, and other debt securities (including trust preferred securities and sovereign debt), which are subject to liquidity, market value, credit, interest rate, reinvestment and certain other risks. The CDO Assets will generally be subject to greater risks than investment-grade corporate obligations. Such investments are normally considered speculative in nature. CDO Assets are typically (but not always) actively managed by a collateral manager, and as a result the CDO Assets will be traded, subject to rating agency and other constraints, by such collateral managers. The aggregate return on the CDO Assets will depend in part upon the ability of each collateral manager to actively manage the related portfolio of CDO Assets. Furthermore, there may be "overlap" of the CDO Assets among the CDO Securities, which subjects the Holders of Notes to a greater degree of risk with respect to defaults that occur with respect to a CDO Asset that is referenced by one or more CDO Securities, either held by the Issuer as a Cash Asset or referenced as a CDS Reference Obligation by a CDO Asset entered into by the Issuer.

The Issuer will invest in the Eligible Collateral Debt Securities such that by the Ramp-Up End Date, the Eligible Collateral Debt Securities will consist primarily of CDO Securities and CDS Assets referencing CDO Securities as a CDS Reference Obligation with a limited number of Asset Backed Securities and Structured Finance Securities. The Eligible Collateral Debt Securities will be subject to certain portfolio restrictions as set forth herein. See "Summary of Terms— Portfolio Quality Tests" and "—Portfolio Limitations" above. However, the concentration of the Eligible Collateral Debt Securities in any one security type subjects the Holders of Notes to a greater degree of risk with respect to defaults on the Eligible Collateral Debt Securities and the measurement of compliance with such portfolio restrictions will be limited to the Closing Date, the Ramp-Up End Date and under the narrow circumstances pursuant to which the Issuer will be permitted to invest in Eligible Collateral Debt Securities following the Closing Date.

The Eligible Collateral Debt Securities are subject to credit, liquidity, market value, interest rate and certain other risks. These risks could be exacerbated to the extent that the portfolio is concentrated in one or more particular Eligible Collateral Debt Securities. CDO Securities are in general privately placed and offer less liquidity than other investment-grade or high-yield corporate debt. They are also generally issued in structured transactions with risks different from regular corporate debt. In addition, the assets collateralizing Market Value CDO Securities are subject to liquidation upon the failure of certain tests, and it is likely that any such liquidation would result in a substantial loss of value of the related Market Value CDO Securities.

Because the Eligible Collateral Debt Securities will be illiquid, prices for the Eligible Collateral Debt Securities may be difficult or impossible to obtain and it may be impossible to sell Eligible Collateral Debt Securities on economic terms or at all if the Manager decides to do so, or to liquidate the Eligible Collateral Debt Securities on economic terms or at all if the Manager or the Trustee is required to do so under the Indenture including in connection with a Redemption. To the extent prices may be obtained on some or all of the Eligible Collateral Debt Securities, those prices may be extremely volatile, and will generally fluctuate due to a variety of factors that are inherently difficult to predict, including but not limited to changes in interest rates, prevailing credit spreads, general economic conditions, financial market conditions, domestic and international economic or political events, developments or trends in any particular industry, and the financial condition of the obligors of the Eligible Collateral Debt Securities. In addition, the ability of the Issuer to sell Eligible Collateral Debt Securities prior to maturity is subject to certain restrictions set forth in the Indenture.

Structured Finance Securities. A portion of the CDO Assets and a portion of the Eligible Collateral Debt Securities generally may consist of Structured Finance Securities, which present risks similar to those of the other types of Eligible Collateral Debt Securities in which the Issuer may invest and, in fact, such risks may be of greater significance in the case of Structured Finance Securities. Moreover, investing in Structured Finance Securities may entail a variety of unique risks. Among other risks, Structured Finance Securities may be subject to prepayment

risk, credit risk, liquidity risk, market risk, structural risk, legal risk and interest rate risk (which may depend upon any associated hedge agreement providing for the exchange of interest accruing on the security being repackaged into interest stated to be payable on the trust certificates or similar securities). In addition, the performance of a Structured Finance Security will be affected by a variety of factors, including the level and timing of payments and recoveries on and the characteristics of the underlying repackaged securities, remoteness of those assets from the originator or transferor and the adequacy of and ability to realize upon any related collateral.

Asset Backed Securities. A portion of the CDO Assets and a portion of the Eligible Collateral Debt Securities generally may consist of Asset Backed Securities, which present risks similar to those of the other types of Eligible Collateral Debt Securities in which the Issuer may invest and, in fact, such risks may be of greater significance in the case of Asset Backed Securities. Moreover, investing in Asset Backed Securities may entail a variety of unique risks. Among other risks, Asset Backed Securities may be subject to prepayment risk, credit risk, liquidity risk, market risk, structural risk, legal risk and interest rate risk (which may depend upon any associated hedge agreement providing for the exchange of interest accruing on the security being repackaged into interest stated to be payable on the trust certificates or similar securities). In addition, the performance of an Asset Backed Security will be affected by a variety of factors, including its priority in the capital structure of the issuer thereof, the availability of any credit enhancement, the level and timing of payments and recoveries on and the characteristics of the underlying receivables, loans or other assets that are being securitized, remoteness of those assets from the originator or transferor, the adequacy of and ability to realize upon any related collateral and the capability of the servicer of the securitized assets.

Loans. Issuers of CDO Securities may acquire interests in loans and other debt obligations by way of sale, assignment or participation. The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; however, its rights can be more restricted than those of the assigning institution.

Purchasers of loans are predominantly commercial banks, investment funds, mutual funds and investment banks. As secondary market trading volumes increase, new loans are frequently adopting standardized documentation to facilitate loan trading which may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue. Because of the provision to holders of such loans of confidential information relating to the borrower, the unique and customized nature of the loan agreement, and the private syndication of the loan, loans are not as easily purchased or sold as a publicly traded security, and historically the trading volume in the loan market has been small relative to the high yield debt market.

In purchasing participations, an issuer of CDO Securities will usually have a contractual relationship only with the selling institution, and not the borrower. Each such issuer generally will have no right directly to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, nor have the right to object to certain changes to the loan agreement agreed to by the selling institution. Such issuer may not directly benefit from the collateral supporting the related loan and may be subject to any rights of set-off the borrower has against the selling institution. In addition, in the event of the insolvency of the selling institution, under the laws of the United States and the States thereof, such issuer may be treated as a general creditor of such selling institution, and may not have any exclusive or senior claim with respect to the selling institution's interest in, or the collateral with respect to, the loan. Consequently, such issuer may be subject to the credit risk of the selling institution as well as of the borrower.

Real Estate CDO Securities. A portion of the CDO Assets and a portion of the Eligible Collateral Debt Securities generally may consist of CMBS Securities, RMBS Securities and Home Equity Loan Securities.

CMBS Securities are, generally, securities backed by obligations (including certificates of participation in obligations) that are principally secured by mortgages on real property or interests therein ("Commercial Mortgage Loans") having a multifamily or commercial use, such as shopping malls, other retail space, office buildings, industrial or warehouse properties, hotels, nursing homes and senior living centers. In addition to the other risks described above, the Commercial Mortgage Loans underlying CMBS Securities are subject to particular risks, including lack of standardized terms, shorter maturities than residential mortgage loans and payment of all or substantially all of the principal only at maturity rather than regular amortization of principal. Additional risks may

be presented by the type and use of a particular commercial property. Special risks are presented by hospitals, nursing homes, hospitality properties and certain other property types. Commercial mortgage lenders typically look to the debt service coverage ratio of a loan secured by income-producing property as an important measure of the risk of default on such a loan. Commercial property values and net operating income are subject to volatility, which may result in net operating income becoming insufficient to cover debt service on the related mortgage loan. The repayment of loans secured by income-producing properties is typically dependent upon the successful operation of the related real estate project rather than upon the liquidation value of the underlying real estate. Furthermore, the net operating income from and value of any commercial property is subject to various risks, including changes in general or local economic conditions and/or specific industry segments; declines in real estate values; declines in rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies; acts of God; terrorist threats and attacks and social unrest and civil disturbances. A commercial property may not readily be converted to an alternative use in the event that the operation of such commercial property for its original purpose becomes unprofitable. In such cases, the conversion of the commercial property to an alternative use would generally require substantial capital expenditures. The liquidation value of any such commercial property may be substantially less, relative to the amount outstanding on the related Commercial Mortgage Loan, than would be the case if such commercial property were readily adaptable to other uses. The exercise of remedies and successful realization of liquidation proceeds relating to Commercial Mortgage Loans underlying CMBS Securities may be highly dependent on the performance of the servicer or special servicer. There may be a limited number of special servicers available, particularly those which do not have conflicts of interest.

Commercial Mortgage Loans underlying CMBS Securities may provide for no amortization of principal or may provide for amortization based on a schedule substantially longer than the maturity of the mortgage loan, resulting in a "balloon" payment due at maturity. If the underlying mortgage borrower experiences business problems, or other factors limit refinancing alternatives, such balloon payment mortgages are likely to experience payment delays or even default. As a result, the related CMBS Securities could experience delays in cash flow and losses.

RMBS Securities are ownership or participation interests in pools of one-to-four-family residential mortgage loans. In addition to the risks described above, RMBS Securities are subject to particular risks. The loans underlying RMBS Securities generally do not restrict prepayments or require the payment of prepayment penalties. As a result, prepayments are likely to increase in lower interest rate environments, which may result in a reduction in yield to maturity for holders of RMBS Securities. Prepayments on the underlying residential mortgage loans in an issue of RMBS Securities will be affected by a variety of economic, geographic and other factors, including the difference between the interest rates on the underlying residential mortgage loans (giving consideration to the cost of refinancing) and prevailing mortgage rates and the availability of refinancing. The origination and servicing of the mortgage loans may be subject to various federal and state laws and regulations with respect to interest rates and other charges, or may require certain disclosures, require licensing of originators, prohibit discriminatory lending practices, regulate the use of consumer credit information and debt collection practices and may limit the servicer's ability to collect all or part of the principal or interest on a residential mortgage loan, entitle the borrower to a refund of amounts previously paid by it or subject the servicer to damages and sanctions. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the area where the related mortgaged property is located, the borrower's equity in the mortgaged property and the financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited. At any one time, a portfolio of RMBS Securities may be backed by residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such areas, such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas, than would be the case for a pool of mortgage loans having more diverse property locations.

The Eligible Collateral Debt Securities may also consist of securities other than CDO Securities. The structure of such securities and the terms of the investors' interest in the collateral can vary widely depending on the

type of collateral, the desires of investors and the use of credit enhancements and, in addition to the risks described above, each such security may be subject to particular risks. Investments in such securities may be of varying credit quality and risk.

15. **CDS Assets.** Approximately 86.9% of the Principal Balance—Aggregate of the Eligible Collateral Debt Securities included in the Collateral is expected to consist of CDS Assets and may also include Covered Short CDS Assets, all of which will be in the form of credit default swaps documented on Pay-As-You-Go Confirmations or any permitted alternative form of confirmation. The CDS Reference Obligations in respect of CDS Assets must satisfy the definition of Eligible Collateral Debt Security; any Covered Short CDS Assets will not be subject to satisfaction of the Portfolio Limitations, the Coverage Tests and the Portfolio Quality Tests. Investments in such types of assets through the purchase or acquisition of CDS Assets or entry into Covered Short CDS Assets present risks in addition to those resulting from holding or selling the underlying CDS Reference Obligations directly. CDS Assets are expected to be structured in such a way that the Issuer will receive periodic premium payments and will be required to make payments, from time to time in accordance with the terms thereof, to the CDS Asset Counterparty in respect of any Floating Payments (as such term is defined in the relevant CDS Asset) and Credit Events. The requirement of the counterparty to make payments in accordance with the CDS Assets will expose the Issuer to the default risk on the underlying CDS Reference Obligation on an ongoing basis (in addition to the default risk of the CDS Asset Counterparty).

No Direct Ownership of CDS Reference Obligations. The CDS Assets do not constitute a purchase or other acquisition or assignment of any interest in any CDS Reference Obligations. The Issuer will usually have a contractual relationship only with the counterparty under each CDS Asset, and not the CDS Reference Obligor on any related CDS Reference Obligation, except upon delivery of a Deliverable Obligation in conjunction with the termination of a CDS Asset at the sole election of the CDS Asset Counterparty upon a Credit Event. The counterparty will have no obligation to hold or own the CDS Reference Obligation. The Issuer generally will have no right directly to enforce compliance by any CDS Reference Obligor with the terms of either the related CDS Reference Obligation or any rights of set-off against such CDS Reference Obligor, nor will the Issuer generally have any voting or other consensual rights of ownership with respect to any related CDS Reference Obligation. The Issuer will not have a security interest in the CDS Reference Obligation and will not benefit from any collateral supporting any related CDS Reference Obligation. The Issuer will not have the benefit of the remedies that would normally be available to it if it held the CDS Reference Obligation directly. Except to the extent that the CDS Asset Counterparty delivers a Deliverable Obligation, none of the Issuer, the Trustee, the Noteholders or any other person will have any rights to acquire from any CDS Asset Counterparty any interest in any CDS Reference Obligation.

Limited Information Regarding CDS Reference Obligations. Although the Monthly Report will include a list of the CDS Reference Obligations, the Noteholders will not have the right to obtain from the Issuer, the Trustee or the Manager information on the CDS Reference Obligations or information regarding any obligation of any CDS Reference Obligor. The CDS Asset Counterparties will have no obligation to keep the Manager, the Issuer, the Trustee or the Noteholders informed as to matters arising in relation to any CDS Reference Obligation, including whether or not circumstances exist under which there is a possibility of the occurrence of a Credit Event, or to disclose any further information or evidence regarding the existence or terms of any CDS Reference Obligation or any matters arising in relation thereto or otherwise regarding any CDS Reference Obligor, any guarantor or any other person, other than the obligation of the CDS Asset Counterparty to provide publicly available information to the Issuer of the occurrence of a Credit Event.

None of the Issuer, the Trustee, the Manager and the Noteholders will have the right to inspect any records of the CDS Asset Counterparties or the CDS Reference Obligors.

Performance of CDS Assets May Differ from Performance of CDS Reference Obligations. The investment in a CDS Asset or Covered Short CDS Asset may pose risks greater than those of an equivalent investment in the underlying CDS Reference Obligation, because the terms of the CDS Asset or Covered Short CDS Asset may be different from the terms of the corresponding CDS Reference Obligation including, without limitation, in respect of the stated rate of interest, maturity date, notional amount, credit exposure and other credit or non-credit related characteristics. Given that the Issuer will not own the CDS Reference Obligations (except to the extent it receives Deliverable Obligations) and that it also is subject to the credit risk of the counterparty, a CDS Asset or a Covered Short CDS Asset may have an expected return, a probability of default, expected loss characteristics

following a default and an expected recovery following default that are different, possibly significantly, from those of the related CDS Reference Obligation.

Exposure to Credit Risk of Counterparties. The CDS Assets and the Covered Short CDS Assets are contracts pursuant to which the counterparties agree to make payments to the Issuer. The Issuer will look solely to the counterparty for payments on the CDS Assets and the Covered Short CDS Assets and will, therefore, be exposed to liquidity and credit risk related to that counterparty. If the credit quality of any such counterparty deteriorates, such counterparty may default on its obligation to make such payments. Unless the counterparty is required to collateralize its obligations to the Issuer and has actually done so, or in the event of the insolvency of the counterparty, the Issuer will be treated as a general creditor of such counterparty, and will not have any claim of title with respect to the CDS Reference Obligation. Consequently, the performance of the Issuer is dependent not only on the credit quality of the Eligible Collateral Debt Securities (including, in respect of the CDS Assets and the Covered Short CDS Assets, the credit quality of the CDS Reference Obligations), but also on the credit quality of the counterparties. A failure by a counterparty to perform its obligations to the Issuer would reduce the funds available to the Issuer to perform its obligations, which could result in a reduction or delay in payments on the Notes or an Event of Default. As a result, concentrations of CDS Assets entered into with any one counterparty will increase the risk that a payment failure by such counterparty will result in a shortfall of funds available for payments on the Notes. Furthermore, there may be practical impediments or timing delays associated with enforcement of the Issuer's rights against a CDS Asset Counterparty in the case of an insolvency of such CDS Asset Counterparty. The Issuer will also bear the risk of settlement default by any such counterparty, particularly since the terms of CDS Assets may require physical settlement by the relevant CDS Asset Counterparty. Settlement risk will arise if the Issuer meets its payment obligation under a CDS Asset before the CDS Asset Counterparty meets its corresponding payment or delivery obligations thereunder.

If the counterparty or the related guarantor, if any, under a CDS Asset or a Covered Short CDS Asset no longer satisfies the applicable ratings required by each Rating Agency, a "termination event" (and/or, in the case of a failure to observe any applicable posting requirement, a "credit support default") will occur and may result in a termination payment, which will be subordinated in the Priority of Payments to the extent that the counterparty is the affected or defaulting party, unless, within a specified number of days thereafter, the counterparty either transfers its obligations thereunder to a replacement counterparty with the requisite ratings or obtains a guarantee of its obligations by a guarantor with the requisite ratings or posts credit support in the manner provided thereunder. There can be no assurance that any counterparty will take any such action within the specified time frame, in which case the Issuer will be subject to additional credit risk that could result in reductions or delays in payments on the Notes if the credit quality of the counterparty deteriorates to the point at which it defaults on its obligations to the Issuer. In addition, even if the counterparty desires to transfer its obligations to a replacement counterparty or to designate a guarantor, there may be no replacement counterparty or guarantor available with the required ratings.

Under the CDS Assets, the Issuer may be required, in its capacity as protection seller and (in the case of a Writedown, Failure to Pay Principal or Interest Shortfall (each as defined in the related CDS Asset), in lieu of payment by the Issuer of a Physical Settlement Amount), to pay Floating Payments (as such term is defined in the relevant CDS Asset) to the CDS Asset Counterparty, including amounts in respect of any Writedown, Failure to Pay Principal, Failure to Pay Interest (in the case of certain CDS Assets referencing CDO Securities) and Interest Shortfalls under the applicable CDS Reference Obligation. In the case of a Writedown or Failure to Pay Principal, the CDS Asset Counterparty, as buyer of protection, will be entitled to elect whether to deliver a notice demanding physical settlement in lieu of the Issuer being required to make a payment of the Credit Protection Payment in respect thereof. CDS Asset Payments (including Floating Payments) will generally be payable in accordance with the CDS Assets on such date or dates specified thereunder, whether or not such payment date is a Payment Date. Although Floating Payments payable by the Issuer are contingent on the performance of the related CDS Reference Obligation, even if the CDS Asset Counterparty, in its capacity as protection buyer, is required to reimburse all or part of such Floating Payments to the Issuer as a result of subsequent recoveries of the related shortfalls or the writing up of the principal of the related CDS Reference Obligation, there may be a significant delay between the date of payment of the Floating Payments to the CDS Asset Counterparty to the date, if any, on which the Issuer receives reimbursement from the CDS Asset Counterparty.

A CDS Asset Counterparty may seek to eliminate its credit exposure to the CDS Reference Obligations by entering into back-to-back hedging transactions, and its ability to physically settle a transaction under which it is

acting as protection buyer may be dependent on whether or not the counterparties to such back-to-back hedging transactions perform their delivery obligations. Such risks may differ materially from those entailed in exchange-traded transactions, which generally are backed by clearing organization guarantees, daily mark-to-market and settlement of positions, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered into directly between two counterparties generally do not benefit from such protections, and expose the parties to the risk of counterparty default.

The counterparty risks described above will be magnified by the multiple roles which may be performed by Citigroup and its Affiliates. Citibank, N.A., in its capacity as the Initial CDS Asset Counterparty, will be the counterparty under CDS Assets with a Net Aggregate Adjusted Notional Amount of approximately U.S.\$869,256,000 as of the Closing Date, which will comprise all of the CDS Assets entered into as of the Closing Date. Citibank, N.A., in its capacity as the Initial CDS Asset Counterparty, is expected to enter into additional CDS Assets with the Issuer following the Closing Date. The aggregate notional amount of all CDS Assets may equal up to 100% of the Principal Balance—Aggregate. The concentration of CDS Assets with a limited number of counterparties or a single counterparty exposes the Issuer to a greater concentration of credit risk.

Citigroup and its Affiliates may also enter into Hedge Agreements with the Issuer on or following the Closing Date. The failure by Citigroup or its Affiliates to perform their respective obligations in any of their various capacities could reduce the funds available to the Issuer to perform its obligations, which could result in reductions or delays in payments on the Notes or an Event of Default. See "—Potential Conflicts of Interest with Citigroup Global Markets Inc."

New and Developing Structure of CDS Assets. The CDS Assets and Covered Short CDS Assets are expected to be structured as credit default swaps and documented pursuant to Master Agreements and multiple Pay-As-You-Go Confirmations (or any modified or successor version of such form as may be approved by the Manager and that receive Rating Agency Confirmation from each Rating Agency). Forms of Pay-As-You-Go Confirmations were recently developed to accommodate the unique features of collateralized debt obligation, asset-backed and other structured finance securities. The standardized terms for these types of transactions are still evolving. Accordingly, the terms that ultimately become the standard for the market may be significantly different than the terms of the CDS Assets which will be established on the Closing Date and any Covered Short CDS Assets that may be acquired following the Closing Date. Any difference between the Issuer's then existing CDS Assets and Covered Short CDS Assets and the evolving market standard documentation may have a negative impact on the liquidity and market value of any such CDS Assets and Covered Short CDS Assets. In addition, because of such potential differences, there can be no assurance that the Issuer will be able to acquire CDS Assets to the extent or in the manner anticipated on the Closing Date. Furthermore, the Issuer will be required to obtain Rating Agency Confirmation and, in certain instances, the consent of the Requisite Noteholders in order to enter into CDS Assets that have terms different from those CDS Assets acquired on the Closing Date. The Collateral may therefore be less diversified than would otherwise be the case.

The Issuer may enter into CDS Assets after the Closing Date with CDS Asset Counterparties other than the Initial CDS Asset Counterparty and may, from time to time, enter into one or more Covered Short CDS Assets with one or more Covered Short CDS Asset Counterparties. Any additional CDS Assets and Covered Short CDS Assets may be in the form of Form-Approved ABS Asset Agreements, Form-Approved CDO Asset Agreements or on Pay-As-You-Go Confirmations for which Rating Agency Confirmation has been received. In the case of CDS Assets or Covered Short CDS Assets on Pay-As-You-Go Confirmations that have received Rating Agency Confirmation, the terms of the CDS Assets or Covered Short CDS Assets, as the case may be, negotiated by the Manager on behalf of the Issuer may be materially different than those described herein and may include additional credit events, floating amount events, additional fixed payments, events of default or termination events or other terms which are less favorable to the Issuer than the terms of the CDS Assets entered into on the Closing Date or that are Form-Approved ABS Asset Agreements or Form-Approved CDO Asset Agreements.

The current premiums which a buyer of protection will pay under credit default swaps relating to CDS Reference Obligations that are Asset Backed Securities, and specifically CDO Securities, are at very low levels (compared to the levels during the past five years). This results in part from the fact that the current interest rate spreads over LIBOR (or, in the case of fixed rate Asset Backed Securities, over the applicable U.S. Treasury Benchmark) on Asset Backed Securities are at very low levels (compared to the levels during the past ten years). In

the event that such interest rate spreads widen or the prevailing credit premiums on credit default swaps relating to Asset Backed Securities increase after the Closing Date, the amount of a CDS Asset/SCA Issuer Termination Payment due from the Issuer upon a termination of a CDS Asset to the related CDS Asset Counterparty could increase by a substantial amount.

Lack of Liquidity in Market for Credit Default Swaps. The market for credit default swaps on Asset Backed Securities has only existed for a few years and is relatively illiquid (compared to the market for credit default swaps on investment grade corporate reference entities or the market for Cash Assets). In addition, the liquidity of the CDS Assets is also limited because the Issuer is generally not permitted to terminate or assign CDS Assets or Covered Short CDS Assets without the consent of the related counterparty and accordingly may not be able to terminate or assign such CDS Assets or Covered Short CDS Assets in a timely fashion and for a fair price, potentially restricting its ability to take advantage of market opportunities. The interests of any related CDS Asset Counterparties or Covered Short CDS Asset Counterparties may conflict with the interests of the Issuer or the Noteholders and the requirement to obtain any counterparty's consent in connection with terminating or assigning CDS Assets or Covered Short CDS Assets may limit the Manager's ability to trade proactively and reinvest in CDS Assets or Covered Short CDS Assets or otherwise act in the best interests of the Issuer and the Noteholders in pursuit of the Issuer's investment objectives. Any inability to obtain the consent of the relevant counterparties may have a materially adverse effect on the Noteholders and the Notes.

The aggregate notional exposure of the credit default swaps on any asset-backed security is typically expected to be a multiple of the actual outstanding principal amount of such asset-backed security. This excess of notional exposure over actual supply may negatively affect liquidity and valuation of credit default swaps if adverse economic developments occur in the financial and credit markets generally, or with respect to particular CDS Reference Obligors or CDS Reference Obligations. This lack of liquidity and potential valuation difficulty in the credit default swap market may limit the Manager's ability to act in the best interests of the Issuer and the Noteholders in pursuing the Issuer's investment objectives.

Termination of CDS Assets. CDS Assets may provide for termination or liquidation based upon the occurrence of various events (including events related to collateral maintained by the Issuer for payments to the CDS Asset Counterparties) that would not apply if the Issuer had invested directly in the underlying CDS Reference Obligations. The Issuer may be obligated to make payments to the CDS Asset Counterparties upon termination of CDS Assets. The amount of termination payments owing by the Issuer or the CDS Asset Counterparty, as the case may be, would generally be determined as the replacement cost to the CDS Asset Counterparty or the Issuer, as the case may be, for each terminated CDS Asset. The illiquidity and restrictions on transfer and termination of the CDS Assets and Covered Short CDS Assets also may affect the amount and the timing of receipt of proceeds from the termination of CDS Assets and Covered Short CDS Assets in connection with the acceleration of the Notes following an Event of Default or upon a Redemption of the Notes. The amount, if any, receivable by the Issuer upon any such termination or liquidation may be significantly less than the amount that the Issuer would have received upon the contemporaneous sale of the underlying CDS Reference Obligation. In addition, the Issuer may not be able to terminate CDS Assets as easily as it would be able to buy and sell the related CDS Reference Obligations, and, in particular, may not be able to terminate such CDS Assets without the consent of the related CDS Asset Counterparty, and the CDS Asset Counterparty may have the ability to terminate the related CDS Assets without the consent of the Issuer. Accordingly, the Issuer may not be able to manage its exposure to the related CDS Reference Obligations as efficiently or as economically as it would if it had purchased such CDS Reference Obligations directly. Following a termination, the Issuer may not be able to enter into a replacement CDS Asset or may not be able to negotiate terms of a replacement that are substantially similar to the terminated CDS Asset or at an acceptable cost.

The Issuer's ability to make payments when due on the CDS Assets will depend upon its sources of liquidity, including access to funds under the Class A1 Swap. Although the Class A1 Swap Counterparty (or its guarantor) is generally subject to minimum ratings requirements, and to certain mandatory funding obligations, such requirements and obligations will not initially be applicable with respect to CGML as the Class A1 Swap Counterparty and any CDS Assets will contain a CDS Asset Counterparty Forbearance so long as such requirements and obligations are not applicable. Although the Issuer does not believe that such provisions in the Class A1 Swap and in the CDS Assets would affect Noteholders as of the Closing Date, no assurance can be given that this will be the case in all circumstances during the term of the Notes.

At any time that the Issuer would be entitled to terminate all or any portion of any CDS Asset, the Manager may instead cause the Issuer to enter into one or more Covered Short CDS Assets pursuant to which the Issuer is the buyer of protection on the related CDS Reference Obligation, the seller of protection on the related CDS Reference Obligation is the CDS Asset Counterparty or another permitted counterparty and the other terms of such Covered Short CDS Asset are identical to the terms of the related CDS Asset except as otherwise permitted under the Indenture. The CDS Asset Counterparty will not be under any obligation to enter into a Covered Short CDS Asset with the Issuer at any time. There can be no guarantee that the Issuer will be able to agree to the terms of any Covered Short CDS Asset with the relevant Covered Short CDS Asset Counterparty or that the Covered Short CDS Asset and the related CDS Asset will exactly offset one another in all circumstances.

Under certain circumstances, the Issuer or a CDS Asset Counterparty may terminate all CDS Assets documented under the applicable Master Agreement, in which event the Issuer or the CDS Asset Counterparty may be required to make a termination payment thereunder, depending upon existing market conditions at the time of any such termination. If the Issuer is required to make a CDS Asset/SCA Issuer Termination Payment in respect of such a termination, the amount of funds otherwise available to pay the Noteholders will be reduced.

Potential Conflicts of Interest with CDS Asset Counterparties. No CDS Asset Counterparty or its Affiliates will be (or be deemed to be acting as) the agent or trustee of the Issuer or the Noteholders in connection with the exercise of, or the failure to exercise, any of the rights or powers (including, without limitation, voting rights) of the CDS Asset Counterparty and/or its Affiliates arising under or in connection with their respective holding of any CDS Reference Obligation. A CDS Asset Counterparty will have only the duties and responsibilities expressly agreed to by it under the applicable CDS Asset and will not, by reason of its or any of its Affiliates acting in any other capacity, be deemed to have other duties or responsibilities or be deemed to be held to any higher standard of care than that set forth in the applicable CDS Asset or imposed by law. In no event shall a CDS Asset Counterparty be deemed to have any fiduciary obligations to the Noteholders or any other person or entity by reason of acting in such capacity. A CDS Asset Counterparty's actions may be inconsistent with or adverse to the interests of the Noteholders.

In taking any action with respect to a CDS Asset (including declaring or exercising its remedies in respect of a credit event or any other default under or termination of the CDS Asset), a CDS Asset Counterparty may take such actions as it determines to be in its own commercial interests and not as agent, fiduciary or in any other capacity on behalf of the Issuer or the holders of the Notes. A CDS Asset Counterparty or one of its Affiliates may act as a dealer for purposes of obtaining quotations with respect to a CDS Reference Obligation.

A CDS Asset Counterparty and its Affiliates may (but are not required to) hold other obligations or securities of any CDS Reference Obligor, may deal in any such obligations or securities, may enter into other credit derivatives involving reference entities or reference obligations that may include the CDS Reference Obligations (including credit derivatives relating to CDS Reference Obligations), may accept deposits from, make loans or otherwise extend credit to, and generally engage in any kind of commercial or investment banking or other business with, any issuer of a CDS Reference Obligation, any Affiliate of any issuer of a CDS Reference Obligation or any other person or other entity having obligations relating to any issuer of a CDS Reference Obligation, and may act with respect to such business in the same manner as if the CDS Asset did not exist, regardless of whether any such relationship or action might have an adverse effect on any CDS Reference Obligation (including, without limitation, any action which might constitute or give rise to a credit event) or on the position of the Issuer, the Noteholders or any other party to the transactions described herein or otherwise. In addition, a CDS Asset Counterparty and/or its Affiliates may from time to time possess interests in the issuers of CDS Reference Obligations and/or CDS Reference Obligations allowing the CDS Asset Counterparty or its Affiliates, as applicable (or any investment manager or adviser acting on its or their behalf), to exercise voting or consent rights with respect thereto, and such rights may be exercised in a manner that may be adverse to the interests of the holders of the Notes or that may affect the market value of CDS Reference Obligations and/or the amounts payable thereunder. A CDS Asset Counterparty and its Affiliates may, whether by reason of the types of relationships described herein or otherwise, at the date hereof or any time hereafter, be in possession of information in relation to a CDS Reference Obligation or any issuer thereof that is or may be material and that may or may not be publicly available or known to the Issuer, the Manager, the Trustee or the Holders of the Notes and which information the CDS Asset Counterparty or such Affiliates will not disclose to the Issuer, the Manager, the Trustee or the Noteholders.

A CDS Asset Counterparty and its Affiliates may act as underwriter, initial purchaser or placement agent for entities having investment objectives similar to those of the Issuer and other similar entities in the future. A CDS Asset Counterparty (or an Affiliate thereof) may be advising or distributing securities on behalf of an issuer or providing banking or other services to an issuer at the same time at which the Manager is determining whether to enter into or terminate a CDS Asset relating to a particular CDS Reference Obligation.

Obligation to Maintain Collateral; Claims of Counterparties. In conjunction with the investment in a CDS Asset, the Issuer will maintain available sources of liquidity, through the Class A1 Swap, the Capacity Subaccount of the Reserve Account and the CDS Asset Collateral Account, in amounts sufficient to secure the obligations of the Issuer in accordance with the terms of the related CDS Assets. Amounts held in the CDS Asset Collateral Account generally will not be available for payments on the Notes unless and until amounts are released to the Issuer from the CDS Asset Collateral Account for deposit into the Collection Account. To the extent of any amounts or securities on deposit in the CDS Asset Collateral Account and upon the amortization, reduction or termination of any CDS Reference Obligation from the related CDS Asset or, to the extent of the CDS Asset Capacity Amount, the Manager is permitted to direct the Trustee to withdraw the applicable amounts in the CDS Asset Collateral Account and deposit such amounts in the Collection Account for application in accordance with the Indenture.

No CDS Asset Counterparty will have a specific lien or claim against any amounts available from the Class A1 Swap or against any amounts credited to the Capacity Subaccount of the Reserve Account or the CDS Asset Collateral Account. Any such amounts shall be available generally to secure the claims of the CDS Asset Counterparties ratably and without preference among such counterparties. Disputes with a CDS Asset Counterparty over calculations in respect of the amounts of any such payments may result in delays in payment on or early termination of the related CDS Asset.

Under the CDS Collateral Agreement, the CDS Collateral Securities Counterparty will agree to pay any difference between the par value and the sale proceeds of the CDS Collateral Eligible Securities and to ensure that the aggregate return on the CDS Collateral Eligible Securities is equal to LIBOR. Any failure of the CDS Collateral Securities Counterparty to meet its obligations under the CDS Collateral Agreement may result in the Issuer having insufficient funds to make payments in full on the CDS Assets or may reduce the amounts otherwise available in accordance with the Priority of Payments to make payments of interest on or principal of the Notes.

16. **Credit Ratings.** Credit ratings of debt securities represent the rating agencies' opinions regarding their credit quality and are not a guarantee of quality. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. In the event that a rating initially assigned to any Class of Notes is subsequently lowered for any reason, no Person is obligated to provide any additional support or credit enhancement with respect to such Notes. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value; therefore, ratings may not fully reflect the true risks of an investment. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an issuer's current financial condition may be better or worse than a rating indicates. Consequently, credit ratings of the Eligible Collateral Debt Securities will be used by the Manager only as preliminary indicators of investment quality. Although the Eligible Collateral Debt Securities will have investment grade ratings at the time that they are acquired by the Issuer, there can be no assurance that such ratings will not be subsequently reduced or withdrawn.

Rating agencies' assumptions for Asset Backed Securities and for structures employed as part of this transaction have not been tested in all conceivable credit environments. If any such assumptions prove to be incorrect over a period of time, the performance of the Notes could be adversely affected.

17. **CDO of CDO Securities Experience; Dependence on Manager and Key Personnel Thereof; Relationship to Prior Investment Results.** The Manager is experienced in the management of CDO vehicles investing primarily in leveraged loans and high yield bonds. The Manager has previous experience in the management and the structuring of Asset Backed Securities, and the Manager currently manages four portfolios (two of which are CDO of CDO Securities) consisting primarily of Asset Backed Securities and/or CDO Securities that are predominantly cash assets rather than synthetic. Such portfolios relate to transactions that closed in April

2005, May 2006, July 2006 and December 2006. The nature of, and risks associated with, investments in CDO Securities may differ substantially from the nature of, and risks associated with, investments in leveraged loans and high yield bonds. The Issuer has no employees and will be dependent on the employees of the Manager to make decisions on its behalf in accordance with the terms of the Indenture and the Management Agreement. Because the composition of the Eligible Collateral Debt Securities will vary over time, the performance of the Eligible Collateral Debt Securities depends on the investment strategy and investment process of the Manager in analyzing, selecting and managing the Eligible Collateral Debt Securities. As a result, the performance of the Issuer will be highly dependent on the financial and managerial experience of certain investment professionals associated with the Manager. There can be no assurance that the Manager's current investment professionals will continue to be affiliated with the Manager or actively involved in the management and administration of the Collateral for the Issuer. In the event that one or more of the investment professionals of the Manager were to cease to be affiliated with the Manager or actively involved in the management and administration of the Collateral for the Issuer, the Manager would have to re-assign responsibilities internally and/or hire one or more replacement individuals and such a loss could have a material adverse effect on the performance of the Issuer. See "The Manager".

The prior investment results of the Manager and any persons associated with the Manager or any other entity or person described herein or otherwise made available to an investor are not indicative of the Issuer's future investment results. The nature of, and risks associated with, the Issuer's future investments may differ substantially from those investments and strategies undertaken historically by such persons and entities. There can be no assurance that the Issuer's investments will perform as well as the past investments of any such persons or entities.

In addition, subject to certain limited conditions, the Manager may resign at any time or be removed under certain circumstances (as more fully described herein under "The Management Agreement—Termination and Assignment of the Management Agreement; Appointment of Successor"), in each case effective upon the appointment of a successor Manager. The Manager in its sole discretion may resign for any reason, including (without limitation) a change in its business strategy or a corporate reorganization. See "The Management Agreement".

18. **Yield Risk.** The yield to maturity of the Secured Notes of each Class and the amount of distributions on the Income Notes will be affected by, among other things, the timing of purchases of Eligible Collateral Debt Securities, the rates of repayment of the Eligible Collateral Debt Securities as well as by the timing of any redemption of the Notes in a Redemption (and by the related Redemption Prices). The yield to maturity of the Secured Notes of each Class and the amount of distributions on the Income Notes may also be affected by rates of delinquencies and defaults on and liquidations of the Eligible Collateral Debt Securities, sales of Eligible Collateral Debt Securities and by the effects of the Coverage Tests and of a Ratings Confirmation Failure on payments of principal of the Notes pursuant to the Priority of Payments. The yield to investors in the Secured Notes of any Class and other measures of performance may be adversely affected to the extent that the Co-Issuers incur any significant unexpected expenses not absorbed by Notes of another, more subordinated Class.

Issuers of Eligible Collateral Debt Securities may be more likely to exercise any rights they may have to redeem such obligations when interest rates or spreads are declining. Any decrease in the yield on the Eligible Collateral Debt Securities will have the effect of reducing the amounts available to make payments of principal and interest on the Secured Notes and distributions on the Income Notes.

19. **Concentration Risk.** Concentration with respect to any particular obligor, servicer, region or industry will be limited as set forth in the Portfolio Limitations. However, there can be no assurance that the Portfolio Limitations will be adequate to protect Holders of the Notes from risk with respect to any one industry, region or collateral type or any particular obligor or servicer. In addition, the Portfolio Limitations only apply on the date of purchase of Eligible Collateral Debt Securities, which will be the Closing Date and any date until the Ramp-Up End Date but not thereafter (other than Eligible Collateral Debt Securities purchased in certain limited circumstances as specifically provided herein), and therefore may not provide adequate protection against concentration in any particular obligor, servicer, region or industry after such purchase. See "Security for the Secured Obligations—Sale of Eligible Collateral Debt Securities and CDS Assets" and "—Purchase of Eligible Collateral Debt Securities: Investment Criteria".

20. Reliance Upon Class A1 Swap Counterparty. On any Business Day to but excluding the Class A1 Swap Termination Date, the Class A1 Swap Counterparty is required to fund Class A1 Note Fundings in accordance with the terms of the Class A1 Swap. If the Class A1 Swap Counterparty fails to fund a Class A1 Note Funding when the conditions to such funding have been satisfied, the Issuer may have insufficient funds available to make required payments under the related CDS Asset which may result in insufficient funds to make payments required pursuant to the Priority of Payments, including in respect of amounts due and owing on the Notes. If, as a result of a shortfall of amounts received from the Class A1 Swap Counterparty, the Issuer is required to make any payment on a CDS Asset from sources that would have otherwise been available to make payments in accordance with the Priority of Payments, the Issuer may default on payment of principal or interest on the Notes. Any failure of the Class A1 Swap Counterparty to meet its contractual obligations to fund Class A1 Note Fundings could result in losses to the Holders and delays in payment on the Notes.

21. Default and Recovery Rates of Eligible Collateral Debt Securities. The Issuer is not aware of a central source for relevant data or standardized method for measuring default or recovery rates of the Eligible Collateral Debt Securities that the Issuer intends to purchase. Furthermore, historical performance is not necessarily indicative of future performance. In certain circumstances, it is possible that investors in some Classes of Notes will not recover their original investment. Prospective purchasers of the Notes should consider and assess for themselves the likely level and timing of defaults and recoveries on the Eligible Collateral Debt Securities and the likely levels of interest rates during the term of the Notes.

22. Hedge Counterparty Risk and Cashflow Swap Counterparty Risk. Hedge Agreements and the Cashflow Swap Agreement involve the Issuer entering into contracts with counterparties. Pursuant to such contracts, the counterparties agree to make payments to the Issuer as described therein and the Issuer will be exposed to credit risk of the counterparties with respect to such payments. Unless the counterparty has been required to post collateral to the Issuer and has actually done so, the Issuer will be treated as a general unsecured creditor of the counterparty in the event of the insolvency of the counterparty.

23. Interest Rate Risk: Floating Rate Indices for Eligible Collateral Debt Securities; Hedge Agreements; Cashflow Swap Agreement. The Secured Notes will bear interest based on LIBOR determined as described herein. The Eligible Collateral Debt Securities will consist principally of obligations that bear interest based on the London interbank offered rate for United States dollar deposits in Europe with a specified index maturity or other floating rate indices (which are likely to adjust at different times than those applicable to the Secured Notes). As a result, there may be a mismatch between the Secured Notes on one hand and the underlying Eligible Collateral Debt Securities on the other and changes in the level of the London interbank offered rate or other floating rate indices could adversely affect the Issuer's ability to make payments on the Notes. In addition, the amount of interest payable on Eligible Collateral Debt Securities may be limited by available funds caps or other caps on the interest rates payable thereon. There can be no assurance that the Eligible Collateral Debt Securities and the Eligible Investments will in all circumstances generate sufficient Interest Collections to make timely payments of interest on the Secured Notes or provide any particular return on the Income Notes.

The Issuer will be permitted to enter into one or more Hedge Agreements to mitigate a portion of the mismatch between the floating rate of interest on the Secured Notes and the fixed rates of interest on some of the underlying Eligible Collateral Debt Securities. In addition, the Issuer will, on or prior to the Closing Date, enter into a Cashflow Swap Agreement for purposes of managing the Issuer's risk exposure relating to the possible shortfalls in payments of interest on the Class S Notes and the Class A Notes relating to the presence of PIK Bonds in the Collateral. No assurance can be made, however, that such Hedge Agreements or Cashflow Swap Agreement will eliminate all material interest rate or shortfall risks, as applicable, to the Issuer. Despite the Issuer having the benefit of these Hedge Agreements and the Cashflow Swap Agreement and the subordination of the Income Notes to the payments of interest on the Secured Notes, there can be no assurance that the Eligible Collateral Debt Securities and the Eligible Investments will in all circumstances generate sufficient Interest Collections to make timely payments of interest on the Secured Notes or provide any particular return on the Income Notes. In addition, the Hedge Agreements and the Cashflow Swap Agreement may be subject to termination by the Issuer or the applicable Hedge Counterparty or Cashflow Swap Counterparty upon the occurrence of certain events. If any such Hedge Agreement or the Cashflow Swap Agreement is terminated while any of the Secured Notes remain Outstanding, the Issuer will agree to use reasonable efforts to enter into a substitute hedge agreement or cashflow swap agreement on similar terms to the extent that the Issuer is able to enter into such an agreement. However, an Event of Default under the

Indenture will not automatically result if a Hedge Agreement or the Cashflow Swap Agreement is terminated. If the Issuer is unable to obtain a substitute hedge agreement or cashflow swap agreement, interest due on the Secured Notes will be paid from amounts received on the Eligible Collateral Debt Securities without the benefits of such Hedge Agreement, Cashflow Swap Agreement, a substitute hedge agreement or a substitute cashflow swap agreement. There can be no assurance that such amounts will be sufficient to provide for the full payment of interest on the Secured Notes at their respective Periodic Interest Rates or for the payment of distributions on the Income Notes.

The Eligible Collateral Debt Securities are subject to prepayment risk and extension risk which may result in a mismatch between the payments received from the Eligible Collateral Debt Securities and payments made by the Hedge Counterparties under the Hedge Agreements. On or after the Closing Date, the Issuer may enter into Hedge Agreements, increase the notional amount of an existing Hedge Agreement, sell all or a portion of any Hedge Agreement, terminate such Hedge Agreement or reduce the notional amounts of any Hedge Agreement, subject (in certain cases) to obtaining Rating Agency Confirmation. Depending on prevailing interest rates at the time of any such termination or notional amount reduction, the Issuer could be required to make substantial payments to Hedge Counterparties.

24. CDO Assets May Defer Interest. Approximately 87.9% (by Principal Balance) of the expected portfolio of Eligible Collateral Debt Securities on the Closing Date (based on the Principal Balance Target) are expected to consist of CDO Assets that are PIK Bonds. The Issuer may have insufficient funds as a result of deferrals or payments "in-kind" of interest on the PIK Bonds to make payments on the Notes.

25. Purchase of Eligible Collateral Debt Securities; Certain Legal and Insolvency Considerations Related Thereto. The Eligible Collateral Debt Securities purchased by the Issuer on the Closing Date will be purchased from a portfolio of Eligible Collateral Debt Securities held by Citigroup pursuant to a warehouse facility between Citigroup and the Manager (the "Warehousing Facility"). The Manager serves as investment adviser pursuant to the Warehousing Facility. Some of the Eligible Collateral Debt Securities subject to the Warehousing Facility may have been originally acquired by Citigroup or an affiliate of Citigroup in connection with its underwriting or placement thereof. The Issuer will purchase Eligible Collateral Debt Securities from Citigroup or any affiliate thereof only to the extent the Manager determines that such purchases are consistent with the investment guidelines and objectives of the Issuer, the restrictions contained in the Indenture and applicable law. In any event, all purchases of such Eligible Collateral Debt Securities from any third party (including the Manager, and their respective clients and affiliates, and Citigroup or any of its affiliates) will be (a) at fair market value (as determined by the Manager in its discretion at the time such Eligible Collateral Debt Security is originally acquired pursuant to the Warehousing Facility) and otherwise on an "arm's length basis" or, if effected with the Manager, the Issuer, the Trustee or any Affiliate of any of the foregoing or any account or portfolio managed or advised by the Manager or any of its Affiliates, on terms as favorable to the Issuer as would be the case if such person were not so affiliated, and (b) consistent with investment guidelines and objectives of the Issuer, the restrictions contained in the Indenture and applicable law. The purchase price paid by Citigroup for Eligible Collateral Debt Securities acquired from any affiliates of the Manager was customarily not based upon bids obtained by the Manager or Citigroup for such securities or on contemporaneous prices paid by third parties for such securities, but was instead based on the Manager's determination of the fair market value of such securities at the time that each such Eligible Collateral Debt Security was purchased by Citigroup under the Warehousing Facility. With respect to those Eligible Collateral Debt Securities acquired pursuant to the Warehousing Facility, the Issuer will be required to pay to Citigroup the purchase price paid when such Eligible Collateral Debt Securities were acquired under the Warehousing Facility, accrued and unpaid interest on such Eligible Collateral Debt Securities as of the Closing Date. The Issuer will bear the risk of market changes subsequent to the acquisition of Eligible Collateral Debt Securities as if it acquired such assets at the time of purchase under the Warehousing Facility. Accordingly, the Issuer may be obligated to pay a higher purchase price for Eligible Collateral Debt Securities than it would have had it purchased such assets in the market on the Closing Date. In addition, the Issuer may be obligated to reimburse the Initial Purchaser to the extent that it incurs losses with respect to the sale of the Eligible Collateral Debt Securities purchased under the Warehousing Facility that become ineligible for sale to the Issuer pursuant to the Warehousing Facility.

If Citigroup or any of its affiliates was to become the subject of a case or proceeding under the United States Bankruptcy Code, another applicable insolvency law or a stockbroker liquidation under the Securities Investor Protection Act of 1970, the trustee in bankruptcy, other liquidator or the Securities Investor Protection

Corporation could assert that Eligible Collateral Debt Securities acquired from Citigroup or any of its affiliates are property of the insolvency estate of Citigroup or such affiliate. Property that Citigroup or any of its affiliates has pledged or assigned, or in which Citigroup or any of its affiliates has granted a security interest, as collateral security for the payment or performance of an obligation, would be property of the estate of Citigroup or such affiliate. Property that Citigroup or any of its affiliates has sold or absolutely assigned and transferred to another party, however, is not property of the estate of Citigroup or such affiliate. The Issuer does not expect that the purchase by the Issuer of Eligible Collateral Debt Securities, under the circumstances contemplated by this Offering Circular, will be deemed to be a pledge or collateral assignment (as opposed to the sale or other absolute transfer of such Eligible Collateral Debt Securities to the Issuer).

26. The Issuer. The Issuer is a recently incorporated Cayman Islands entity and has no prior operating history or prior business. The Issuer will have no significant assets other than the Collateral that has been pledged to the Trustee to secure the Secured Obligations. The Issuer will not engage in any business activity other than as described herein under "The Issuer and the Co-Issuer—The Issuer." Income derived from the Collateral will be the Issuer's only source of cash. The Income Notes will constitute a residual interest in the assets of the Issuer. Because the Issuer is a Cayman Islands company, it may not be possible for investors to effect service of process within the United States or to enforce against the Issuer in United States courts judgments predicated upon the civil liability provisions of the United States securities laws.

27. The Co-Issuer. The Co-Issuer is a newly formed Delaware corporation and has no prior operating history or prior business. The Co-Issuer does not have and will not have any substantial assets. The Co-Issuer will not engage in any business activity other than the co-issuance of the Co-Issued Notes. The Income Notes will not represent any debt obligations of the Co-Issuer.

28. Potential Conflicts of Interest Involving the Manager. Various potential and actual conflicts of interest may arise from the overall investment activities of the Manager and its Affiliates. The following briefly summarizes some of these conflicts, but is not intended to be an exhaustive list of all such conflicts. Credit Suisse Alternative Capital, Inc. (the "Manager"), Credit Suisse, a Swiss bank (the "Bank") and Credit Suisse Securities (USA) LLC ("CSS") are affiliated entities. Due to the breadth of the activities of the Manager, the Bank, CSS and their affiliates, conflicts of interest may arise as a result of various factors involving the Manager and CSS and their respective affiliates and others. CSS has entered into a services agreement with the Manager to make available to the Manager certain of its employees to enable the Manager to perform its obligations under the Management Agreement. These employees of CSS are members of the Leveraged Investment Group ("LIG"). Certain members of the LIG team are also officers of the Manager. See "The Manager".

Various potential and actual conflicts of interest may exist from the overall investment activities of the Manager, its officers and its affiliates and their employees for their own accounts or for the accounts of others. The Manager and its officers and affiliates (including CSS) and their employees either for their own accounts or the accounts of others, may invest in securities or obligations that would be appropriate as Collateral Obligations and may be buyers or sellers of credit protection that reference Collateral Obligations and CDS Reference Obligations owned by the Issuer. The Manager may acquire Asset Backed Securities of issuers for which the Manager or an affiliate acts as a manager or investment manager and receives compensation therefor. In such cases, the Manager will benefit from fees at the Asset Backed Security level as well as fees paid by the Issuer. Affiliates of the Manager may act as the underwriter, initial purchaser or placement agent for a significant portion of the Collateral Obligations (and securities that are CDS Reference Obligations of Eligible Collateral Debt Securities) acquired by the Issuer and receive compensation in connection therewith. In addition, affiliates of the Manager may act as the underwriter, initial purchaser, placement agent, arranger or syndication or other agent in connection with the issuance of obligations that are owned by the issuers of, or otherwise back, the Collateral Obligations acquired by the Issuer and receive compensation in connection therewith. Such ownership and such other relationships may result in securities laws restrictions on transactions in such securities by the Issuer. The Manager and its affiliates also currently serve as and expect to serve in the future as manager for, invest in and/or be affiliated with, other entities which invest in, underwrite or originate Asset Backed Securities including securities similar to those to be acquired by the Issuer. The Manager or its affiliates, including members of the LIG team, may make investment decisions for themselves, their respective clients and their affiliates that may be different from those made by such persons on behalf of the Issuer, even where the investment objectives are the same or similar to those of the Issuer. The Manager and its officers and affiliates and their respective employees may at certain times be simultaneously